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TAGS: EFIN PREL ECON IV ASEC

SUBJECT: COTE D'IVOIRE: WORLD BANK'S CHIEF OF MISSION
DISCUSSES ONGOING ARREARS AND DDR

Classified By: Ervin Massinga EconChief, reasons 1.4 (b, d)

¶1. (C) Summary. The World Bank's Chief of Mission Doffonsou told EconChief September 28 that the Ivorian Government has failed to make headway on its \$348 million (m) in arrears to the Bank, and that without action, that sum continues to steadily mount. While the government has been offered the opportunity to make a substantial partial payment of the total, it has not to date done so, despite having to pay interest on the funds it has raised for that purpose, nor does it appear to have any concrete plans to find a mechanism to fully pay the amount owed. The WB is ready to bring a decision to the Board to release its \$104m grant for Disarmament, Demobilization and Reintegration (DDR) as soon as arrears are fully paid, despite the obvious blockages in the peace and disarmament processes. End Summary.

¶2. (SBU) During a meeting September 28 hosted by Chief of Mission Richard Doffonsou (a Beninois national) at the World Bank's Abidjan HQ, the WB rep discussed with EconChief the ongoing struggle by the Ivorian Government to clear its existing arrears with the Bank as well as the lack of progress in the disarmament process.

Arrears

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¶3. (C) On September 5th, the World Bank reversed previous policy and informed the government via letter that it would accept partial payment of outstanding arrears (currently some \$348m, or 179bn CFA). Prior to this point, the Bank had insisted upon full payment. Cote d'Ivoire had raised some 84 billion CFA (\$225m) by floating government bonds in the West African regional market at 6.5 percent in May and June of 2006, but had not made headway in finding the means to raise the rest. The funds raised remain in an escrow account at the West African Central Bank (BCEAO), but earn no interest. Since the arrears continue to mount at a steady clip (the total arrears are projected to grow to \$391m by the end of 2006 if no payments are made), the Bank acceded to the Ivorian Government's request and agreed to accept a partial payment as a means of helping to make some headway in closing the gap.

¶4. (C) Doffonsou noted that Junior Ivorian Finance Minister Diby had told him just before the September IMF and WB meetings in Singapore that Cote d'Ivoire would avail itself of the opportunity to make a partial payment, but Diby had also indicated that the government expected the Fund meetings to somehow "solve" Cote d'Ivoire's overall arrears problem. Since the Bank/Fund meetings (which clearly did not produce any sudden policy shifts vis a vis Cote d'Ivoire's arrears), the government has still not made a payment, despite the Bank's clear eagerness for such an interim step.

¶ 15. (C) Doffonsou referenced frequently-mentioned plans by the government to raise the remaining money required to fully pay WB arrears by floating bonds to be backed by next year's receipts of revenues from the cocoa, coffee, and oil and gas sectors. Under this scheme, cocoa-purchasing companies would have to act in some unspecified capacity to guarantee the cocoa-related bonds. At least one major cocoa purchasing company has told the WB (and Emboffs separately) that their financial management arms find the concept dubious, and the WB itself has serious reservations about the idea. Doffonsou said that the latest iteration of the scheme apparently drops the idea of cocoa industry backing. This latest plan and would raise two thirds of the remaining arrears through bonds backed by Cote d'Ivoire's oil revenues, and one third from a combination of new loans from private banks and the West African Development Bank (BOAD). To date however, there is no indication that the government has been able to pull together this supplementary financing package.

¶ 16. (C) Doffonsou stated that most recently, the government has proposed making a partial payment of what it has in escrow in exchange for the immediate disbursement of the Bank's \$104 million grant to help fund DDR. He made clear that the Bank considers this proposal a non-starter.

DDR

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¶ 17. (C) Once arrears are satisfactorily addressed, the Bank Staff is willing to go forward with a proposal to the Board to approve the DDR disbursement, despite frank acknowledgment that the current political situation is blocked and the disarmament process, both of the government and rebel armies and of the pro-Gbagbo militias, is moribund. Doffonsou said

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that the DDR funds would be rigorously overseen and regularly audited, but he readily conceded that it is unclear how a DDR program at this point would be able to make use of the funds.

Bank In An Uncomfortable Position, Wants to Change Cash Flow

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¶ 18. (C) the Bank Staff is clearly eager to see progress on arrears and move the DDR monies. As the Bank Chief of Mission remarked, Cote d'Ivoire currently has a negative cash flow with the IFIs, which would only begin to turn positive with the DDR disbursement, the stalled IMF Emergency Post Conflict Assistance (\$120m to restart structural reforms and provide immediate fiscal and macroeconomic support), and a 2007 Emergency Economic Recovery Credit (EERC) of \$120-140 million, to be provided after elections, to support structural reforms in governance and the cocoa, coffee and petroleum sectors. An EERC bridge towards an eventual decision point under the Heavily Indebted Poor Countries (HIPC) initiative (stalled since 2002) would bring Cote d'Ivoire into a positive cash flow with multilateral institutions by late 2007, according to Doffonsou, but in the current situation, with the government paying interest on approximately \$225m in bonds in addition to ongoing debt servicing, the country's position continues to deteriorate.

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